

# Global Convertible Strategy



## Market Overview

The BofA Merrill Lynch Global 300 Convertible Index (G300) declined with the fall in global equities in the third quarter. All major regions represented in the index declined. U.S. convertibles relatively outperformed as the economy continued to be supported by stronger economic data and accommodative Fed policy. Various data points, including record gains in auto sales and factory new orders, pointed to a moderately growing U.S. economy gaining momentum, and inflation pressures remained muted. Additionally, consumer sentiment continued to improve and gasoline/oil prices declined, the latter aiding a number of industries and, in turn, U.S. economic growth.

Asia/Pacific convertibles also relatively outperformed. In reaction to select weaker consumer spending and manufacturing data (consumer inflation continued to ease and factory production orders were below expectations), China stepped up targeted monetary and fiscal stimulus to support economic growth. Hong Kong's pro-democracy demonstrations reflected deep-rooted tensions with respect to political representation, contributing to bouts of higher market volatility late in the quarter.

Following a strong second quarter, Japanese equities experienced a modest pullback in the third, declining by -2.19%, but outperformed

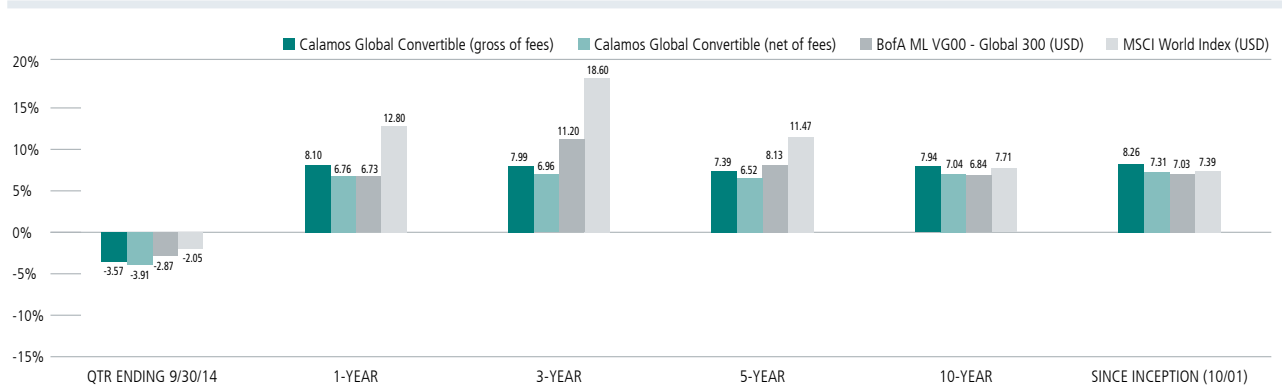
the -5.15% return of Japanese convertibles. In Japan, officials remained steadfast in their belief in an economic recovery, despite recent data pointing to a weakening in wage growth, housing, spending and industrial production. Growth has been weighed down by select tax increases, and skepticism surrounding planned labor market and structural reforms.

European convertibles declined -7.65% in the quarter, and European equities underperformed global developed markets as the uneven euro zone economic recovery came under further duress. In response, the European Central Bank announced a stimulus package aimed at jump-starting the Europe economy and staving off deflation, and finance ministers voted to invest significant capital in large regional infrastructure projects.

Convertible market issuance trends remained strong in the quarter, as \$20.9 billion in new convertibles were issued globally, with \$13.8 billion from the United States. These results brought total 2014 global and U.S. issuance to \$73.2 billion and \$34.7 billion, respectively, with both segments on pace to exceed last year's totals.

The U.S. Dollar Index, a measure of the performance of the U.S. dollar against a basket of six major world currencies, increased during the

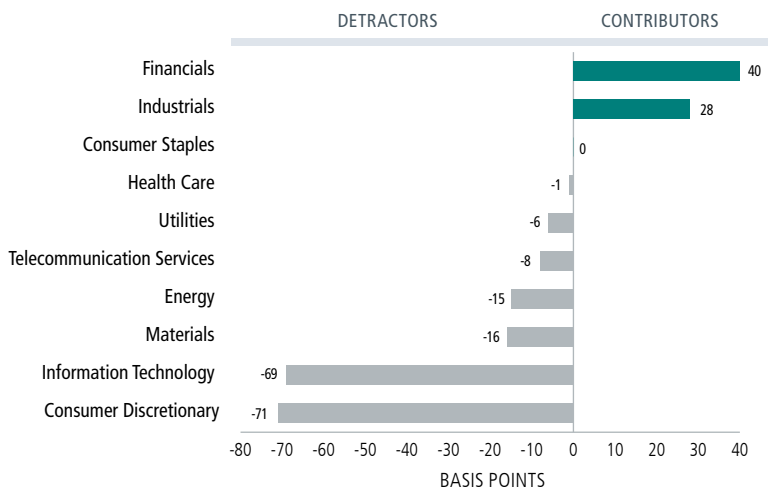
**FIGURE 1. CALAMOS GLOBAL CONVERTIBLE STRATEGY RETURNS**



Source: Calamos Advisors LLC and Mellon Analytical Solutions LLC.  
**Past performance is no guarantee of future results.** Data as of 9/30/14

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**FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS THE BofA MERRILL LYNCH GLOBAL 300 CONVERTIBLE INDEX**  
THIRD QUARTER 2014



Attribution based on gross of fee performance with dividends reinvested. Performance attribution excludes any government/sovereign bonds or options on broad market indexes the portfolio may hold.

**Past performance is no guarantee of future results.**

Source: Calamos Advisors LLC

Data as of 9/30/14.

quarter, returning 7.72% from 79.78 to 85.94. The dollar appreciated versus the euro, the yen, the franc, and pound by 7.75%, 7.59%, 7.15%, and 5.22%, respectively.

## Performance Review

Selection in the financials sector, in particular in the diversified banks industry, contributed to relative returns. We have been selective in the sector, but we believe rising loan growth, attractive valuations, the prospect of higher interest rates, and greater earnings power support a more positive view of financials.

Selection in the industrials sector, especially in the trading companies and distributors industry, was additive. We continue to find compelling opportunities in the sector, especially those closely tied to global demand for infrastructure, transportation, and power solutions. Our holdings are diversified across industries including electrical components, aerospace and defense, construction machinery, and airlines.

Security selection within energy hampered performance. On an industry level, an overweight positioning in oil-and-gas equipment-and-services held back returns. We continue to have a long-term

positive view on energy opportunities as technological advances have enhanced productivity and bolstered production.

While an underweight to information technology was a moderate negative, selection in this sector and in the semiconductor industry, in particular, detracted the most from relative performance. Technology remains the portfolio's largest allocation and overweight, due to the sector's growth profile, high-quality cash flow, and potential to benefit from increased capital spending. We expect many information technology industries to capitalize on long-term secular growth themes, including productivity enhancement and business and consumer demand for mobility and connectivity.

## Positioning

We have positioned the portfolio to provide both upside equity participation and downside protection should markets retreat. In doing so, we continue to favor convertible structures offering a balance of risk and reward characteristics relative to the underlying common equities. While we expect steady economic growth to continue globally, we also anticipate periods of spiking volatility within markets, and therefore maintain a strong focus on risk management.

We increased the portfolio's allocation to the industrials sector. Secular trends, including the global demand for infrastructure, transportation, and power solutions, underpin our view of opportunities in the sector.

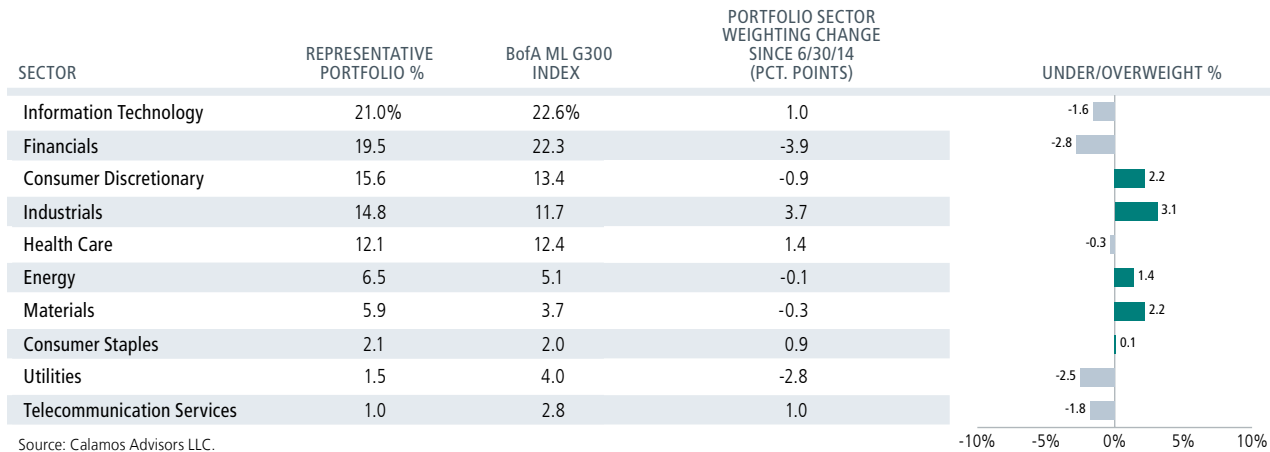
We decreased the portfolio's allocation to consumer discretionary, as bottom-up rationale supported trimming select holdings. While our overweight position has been reduced, we continue to identify select opportunities in the sector, particularly consumer companies with solid growth fundamentals, clean balance sheets, and access to rising global consumption trends.

## Conclusion

We maintain our conviction in higher-quality, global growth businesses, supported by attractive valuations across a number of regions and sectors. No economic recovery occurs without some

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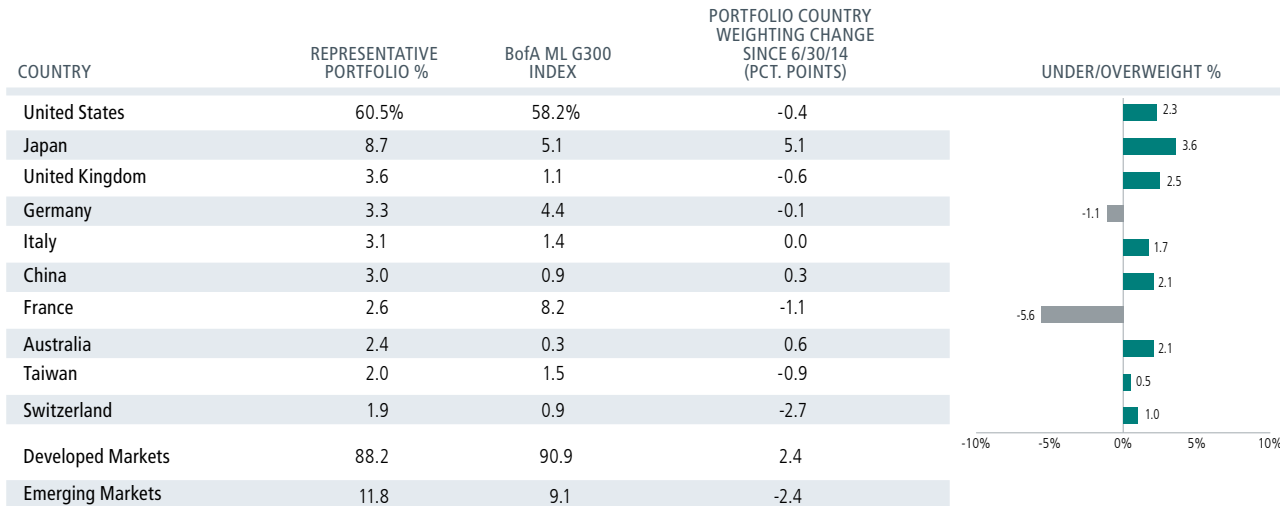
**FIGURE 3. SECTOR ALLOCATIONS VERSUS THE BofA MERRILL LYNCH GLOBAL 300 CONVERTIBLE INDEX**



Source: Calamos Advisors LLC.  
Data as of 9/30/14.

This strategy is actively managed. Holdings, weightings and allocations are subject to change daily. Sector weightings exclude cash or cash equivalents, any government/sovereign bonds or broad based index hedging securities/options the portfolio may hold.

**FIGURE 4. COUNTRY WEIGHTS VERSUS BofA MERRILL LYNCH GLOBAL 300 CONVERTIBLE INDEX**



Source: Calamos Advisors LLC.  
Data as of 9/30/14.

This strategy is actively managed. Holdings, weightings and allocations are subject to change daily. Companies are classified geographically according to their country of domicile. Geographical distribution tables exclude any options on broad market indexes the portfolio may hold.

bumps along the way and, despite recent volatility, we believe the global economic recovery is still largely intact. Further, based on historical research, we anticipate the outperformance of growth securities over value issues as the global economic recovery advances. At the same time, we remain mindful of risk and our valuation discipline, and cognizant of the potential impact of an eventual rise in interest rates on the higher long-term growth, longer-duration equities that we generally favor. Given this backdrop and macro-

economic perspective, we remain confident that this portfolio is well positioned in this environment.

We believe the surge in market volatility over recent weeks reinforces the benefits of convertibles, given their blend of equity and fixed-income characteristics. However, given the varying levels of equity and credit sensitivities among convertibles, we believe an active approach is essential. Accordingly, we seek out creditworthy issuers, a catalyst

The representative portfolio information described in both charts above represents a representative account managed in the Global Convertible strategy. Other clients' portfolios may differ mainly due to individual restrictions and timing of purchases and sales. All portfolio positioning and sector information is for a representative portfolio. Please see page four for additional information.

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for equity appreciation and an attractive risk/reward balance. In turn, your managed portfolio should also exhibit these same hybrid characteristics, providing what we believe will be an asymmetric total return profile, aided by a yield advantage over common equities, and one that should fare well in a period of heightened market volatility and geopolitical tensions.

For a more detailed review of our macro thoughts, please read our latest [Economic Review and Outlook](#) posted on [www.calamos.com](http://www.calamos.com).

**Past performance does not guarantee or indicate future results. Portfolios are managed according to their respective strategies which may differ significantly in terms of security holdings, industry weightings, and asset allocation from those of the benchmark(s). Portfolio performance, characteristics and volatility may differ from the benchmark(s) shown. There is no guarantee that the investment goals/objectives will be met. Indices are unmanaged and one cannot invest directly in an index.**

The information portrayed is for the Calamos Global Convertible Composite. Representative holdings and portfolio characteristics are for the Representative Portfolio shown and are specific only to the portfolio shown at that point in time. Other portfolios will vary in composition, characteristics, and will experience different investment results. The representative portfolio shown has been selected by the advisor based on account characteristics that the advisor feels accurately represents the investment strategy as a whole.

The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

Investments in overseas markets pose special risks, including currency fluctuation and political risks, and the strategy is expected to be more volatile than that of a U.S. only strategy. These risks are generally intensified for investments in emerging markets.

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It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Performance returns presented reflect, unless otherwise noted the Calamos Global Convertible Composite which is an actively managed composite investing primarily in a globally diversified portfolio of convertible securities. The composite includes all fully discretionary fee-paying accounts, including those no longer with the Firm. All returns are net of commission and other similar fees charged on securities transactions and include reinvestment of net realized gains and interest.

**Country Return Statistics:** Unless otherwise noted, country equity returns are based on the appropriate MSCI Index for the country listed. The MSCI Europe Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. The MSCI Japan Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Japan. The MSCI World Index is a market capitalization weighted index composed of companies representative of the market structure of developed market countries in North America, Europe, and the Asia/Pacific Region. The BofA Merrill Lynch Global 300 Convertible Index (G300) is a global convertible index composed of companies representative of the market structure of countries in North America, Europe and the Asia/Pacific region.

Unmanaged index returns assume reinvestment of any and all distributions and, do not reflect fees, expenses or sales charges. Investors cannot invest directly in an index.

Fees include the investment advisory fee charge by Calamos Advisors LLC. Returns greater than 12 months are annualized. All returns are net of commission and other similar fees charged on securities transactions and include reinvestment of net realized gains and interest. Chart Data Sources: Calamos Advisors LLC and Mellon Analytical Solutions LLC.

Average annual total return measures net investment income and capital gain or loss from portfolio investments as an annualized average assuming reinvestment of dividends and capital gains distributions.

Calamos Advisors LLC is a federally registered investment advisor. Form ADV Part 2A, which provides background information about the firm and its business practices, is available upon written request to:

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